

**DEPARTMENT OF PUBLIC WORKS
ENVIRONMENTAL SERVICES FUND
AUGUST 2003**

August 2003

The County Council and County Executive
of Howard County, Maryland

Pursuant to Section 212 of the Howard County Charter and Council Resolution 22-1985, we conducted a review of selected activities of the

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and our report is submitted herewith. The scope of our examination related specifically to a review of how the fund operates and an examination of its revenues, expenditures, and fund balance. The body of our report presents our findings and recommendations. The report attachments summarize the fund's financial activity.

The contents of this report have been reviewed with the Chief Administrative Officer and the Director of the Department of Public Works. We wish to express our gratitude to the Department of Public Works for the cooperation and assistance extended to us during the course of this engagement.

Ronald S. Weinstein, C.P.A.
County Auditor

Dilawar Lakhani, C.P.A.
Auditor-in-Charge

SUMMARY

The Environmental Services Fund is a special revenue fund used to account for the County's waste collection and disposal operations. The revenue of the fund is received mainly from an annual refuse collection charge of \$125 paid by residential and commercial property owners as well as landfill usage charges. The revenues of the fund pay for the cost of waste collection and disposal. Recycling expenditures are paid by the General Fund. Any fund balance is carried over into the next fiscal year.

We reviewed the fund to determine what services are provided, how resources are allocated, and what expenditures are charged to the fund. We found that revenues and expenditures were being accounted for accurately. However, based on our analysis of this fund, it appears that the contingency reserve (fund balance) is being underestimated each budget year and we have recommended that this estimate should be increased.

SCOPE

The Office of the County Auditor has performed a review of the Environmental Services Fund. The purpose of the review was to determine what services are provided by the fund, how resources are allocated to the fund, what expenditures are charged to the fund and the adequacy of the fund balance.

BACKGROUND

Special revenue funds are used to account for the proceeds of specific revenue sources which by law are designated to finance particular functions or activities of the County. The Environmental Services Fund is a special revenue fund.

On July 1, 1996, the County created the Environmental Services Fund to account for its waste collection and disposal operations including the County landfill and various recycling programs operating there. A major disposal expense not directly related to County landfill costs is the cost of contracted waste export. The main sources of dedicated revenues are an annual refuse collection charge of \$125 charged to residential property owners in the County and businesses in the Ellicott City collection zone, and landfill usage charges. While residential property owners pay a charge of \$125 per year, businesses in Ellicott City pay a charge equal to \$125 per collection received. Therefore, businesses receive either two collections per week at a cost of \$250 per year or four collections per week at a cost of \$500 per year. Prior to FY 1999, curbside recycling expenditures were shown in the Environmental Services Fund and reimbursed by the General Fund. Beginning in FY 2000, curbside recycling expenditures and revenues are only shown in the General Fund. The recycling revenue credited to the Environmental Services Fund is for Specific Types of recyclables which are actually collected at the Alpha Ridge Landfill.

We have attached a chart (attachment #1) showing budget vs. actual amounts for fiscal years 2000-2003 and a graph (attachment #2) showing the activity of the fund for this same time period. FY 2000 to 2002 amounts are taken from the Comprehensive Annual Financial Reports. FY 2003 information is taken from the approved budget.

FINDINGS, COMMENTS AND RECOMMENDATIONS

Revenues

_____ Revenues are generated from refuse collection charges, landfill fees, and general fund support. Revenues include landfill permits which cost \$12 annually for residential permits and \$30 annually for commercial permits. FY 2003 landfill permit revenue is budgeted at \$220,000 and landfill users fees are budgeted at \$800,000. County landfill use fees are charged per ton for various categories of commercial waste disposed of at the Alpha Ridge landfill. The budgeted landfill users fee was \$800,000 in FY 2002 while actual revenue from landfill user fees was \$864,976. Actual revenue from this source was \$923,091 in FY 2001. Revenue from landfill disposal fees is decreasing because large commercial haulers are taking commercial waste to private transfer facilities which charge lower fees compared to the tip fees at the landfill. It is anticipated that this revenue will continue to decrease as additional small haulers begin using alternate facilities.

The majority of the revenue of the fund is received from the refuse collection charge. This is levied annually at \$125 per year on all residential property for which the County provides refuse collection service as well as business property in the Ellicott City refuse collection zone. This is the improved real property in the Ellicott City area of the County that is not residential property for which the County provides refuse collection service. The refuse collection charge is levied at \$125 per year based on weekly collection provided. The refuse collection charge is authorized by the County Council at the time of adoption of the annual budget and appropriation ordinance. This charge is not part of the property tax rate.

Actual revenues were \$9,446,613 for FY 2002 and \$9,220,245 for FY 2001. The budgeted revenue is \$9,600,000 for FY 2003. When the charge was established in FY 1997, it was expected to remain constant for several years. There has been no increase in the refuse collection charge since the program began in FY 1997.

Prior to FY 2000, all recycling costs were paid by the General Fund but also shown in the Environmental Services Fund. Starting in FY 2000, the curbside recycling program has been reported only under the General Fund. The FY 2003 budget includes \$4,141,596 General Fund revenue for the curbside recycling expenditures. This amount includes \$2,215,000 for curbside recycling collections, \$800,000 for yard waste collections, \$520,000 for yard waste composting and \$390,000 for recyclables processing. Recycling and yard waste collections are included in the residential refuse collection contracts. The sale of recyclables collected at the Alpha Ridge Landfill generated

revenue of \$6,053 and \$462 was received for scrap metal in FY 2002. The sale of scrap metal fluctuates annually due to market conditions and revenue is lower this year than in previous years.

Expenditures

Total operating costs for the Environmental Services Fund for FY 2003 are budgeted at \$12,347,946. The budgeted costs for FY 2002 were \$11,709,848. That is an increase of \$638,098 or 5.16%.

_____The audited expenses for FY 2002 were \$10,668,113. The major expenditure was for contractual services in the amount of \$6,057,764 which includes contracts for waste export (\$3,455,006) and residential refuse collection (\$2,602,758).

_____There are fifteen residential refuse collection contracts. We reviewed selected contracts and the corresponding payments made under the contracts and found no exception. Collection contracts are staggered so that each year two or three of them expire. These contracts are for integrated curbside refuse and recycling services. They require the contractor to collect refuse and recyclable materials from various collection zones. They are requirement type contracts for one year with renewal options for additional years, in one year increments, and include an annual CPI adjustment for years beyond the initial one year period.

According to the Chief of the Bureau of Environmental Services, costs have increased and are expected to continue to increase approximately 2-3% per year due to the rebidding of contracts and the CPI adjustment. Costs will also increase as a result of growth in the County. For example, refuse and recyclables contractors are paid based on a unit price per home serviced. Therefore, as additional homes are added to the routes, the amount paid to the contractors increases. Contracts are awarded to the lowest responsible bidder meeting specifications. The number of dwelling units is adjusted annually during the contract period based on an annual field count by the County. Payments are made on a biweekly basis upon receipt of invoices.

The contracts require the collection of refuse from all residential properties and the delivery of such refuse to the Annapolis Junction Transfer Station, Alpha Ridge Landfill, or other designated facility once per week. It also includes separate collection of three categories of recyclables and yard waste and the collection of refuse on two separate days each week. There is a maximum quantity of refuse collected of four containers per household, each of which may not exceed 40 lbs.

There is one contract for waste export with Waste Management, Inc. at a contract rate of \$33

per ton. The contract was originally made on August 8, 1996, and operation was expected to begin on January 1, 1997, however the facility was not available until March 1997 at which time the operation began. No increases in the fee were included in the contract.

The contract was amended effective January 14, 2000, because of the Company (Garnet of Maryland, Inc. a subsidiary of Waste Management, Inc.) merger. The United States District Court Judge for the Northern District of Ohio under his final judgment extended part of the Solid Waste Agreement (original service agreement between and among the Northeast Maryland Waste Disposal Authority and Garnet of Maryland, Inc.) dated August 8, 1996, for an additional ten-year period as one of the conditions to provide continuation of solid waste acceptance, processing, transportation, and disposal services for Anne Arundel and Howard Counties of Maryland. As per the amended agreement based on his final judgment, the extension period begins on April 12, 2003, and ends 120 months later. Beginning with 2003, the first year of the extension period, the Authority may elect to extend the service agreement for one year option periods by notifying the Company within 90 days prior to April 12 preceding the beginning of each one year option period.

The tipping fee in each of the first seven (2003 to 2010) one year optional extension periods is \$33 per ton. Beginning in April 2011, the 8th yearly extension period, the tipping fee shall adjust on an annual basis. The Inflation Index of the Bureau of Labor Statistics Consumer Price Index ("CPI"), CPI-W, Washington-Baltimore, DC-MD-VA Area (1996=100) shall be used to calculate the adjustment to the tipping fee. In no event shall the CPI adjustment factor exceed a 4% increase in the tipping fee for any one year option period.

Monthly performance report forms are submitted with invoices for payment by Waste Management Inc. We reviewed selected monthly invoices for contract compliance and found no exception.

The FY 2003 budget for waste export is \$3,650,000. This translates into approximately 110,600 tons exported. Residential refuse is collected and brought to the transfer station at Annapolis Junction. Small haulers still bring trash to the landfill where a contractor then transports a portion of it to the transfer station.

The Northeast Maryland Waste Disposal Authority acts as a liaison between the contractor and Howard County and Anne Arundel County. The Authority is an instrumentality of the State of Maryland created to provide dependable, effective and efficient disposal of solid wastes. Howard County and Anne Arundel County requested that the Authority provide for acceptance, processing,

transfer and disposal of non-recycled solid waste collected by the counties. The Authority and the counties entered into a waste disposal agreement under which the Authority is obligated to provide these services.

According to Section 3.5 of the Waste Disposal Agreement between the Northeast Maryland Waste Disposal Authority and Howard County, Maryland, *beginning July 1, 1997, within (120) days following the end of each Fiscal Year, the Authority shall provide to the County an Annual Settlement Statement setting forth the Aggregate Waste Disposal Fee payable by the County under this Agreement and reconciliation of such amounts with the amounts actually paid by the County as well as any credits, if applicable, pursuant to the Billing Statements with respect to such Fiscal Year prepared in accordance with generally accepted accounting procedures.* This Annual Settlement Statement specified in the Waste Disposal Agreement was received from the Authority for FY 2002.

The Environmental Services Fund reimburses the General Fund for central overhead costs based on an allocation of indirect costs by an outside consultant, Cost Plans Plus, LLC. The pro-rata share is \$747,376 for FY 2003, \$642,116 for FY 2002 and \$562,313 for FY 2001. These budgeted amounts represent 6.86%, 6.10% and 6.04% of the total Operations Division budgeted amounts of \$10,881,827, \$10,518,943 and \$9,317,140 for FY 2003, 2002 and 2001.

It should be noted that a portion of the Capital Project C-0283 Tax Billing and Collection System is for a new real and personal property tax billing system. Approximately 95,000 accounts would be served and, since the trash tax bill is part of the mailing, it was considered appropriate to charge 1/4 of the \$800,000 cost, or \$200,000 to the fund.

Fund Balance

For budget purposes, the Bureau of Environmental Services provides an analysis of the Environmental Services Fund to the Budget Division for further review. The Bureau's analysis is an in-house working document only. The Budget Division, using the same spreadsheet format, evaluates the Bureau's analysis and modifies assumptions made based on information available to the Budget Division. The final spreadsheet prepared by the Budget Division is used as the sole basis for determining the status of the Environmental Services Fund. Based on our analysis of this fund over the four year period 2000-2003, it appears the ending fund balance (shown as contingency reserve in each budget year) is being underestimated anywhere between approximately \$800,000 and

\$1.9 million. Based on the just released FY 2004 budget, the anticipated ending balance for FY 2003 is over \$1.5 million greater than was budgeted in FY 2003 as the contingency. Since this is obviously a trend, the Budget Division should increase the amount of fund balance (contingency reserve) budgeted in this fund. This increase will present a more realistic presentation of the fund and when the fee may need to be adjusted. Although the fund balance would be greater, the funds would remain in the Environmental Services Fund. Therefore, we recommend that:

1. **The Budget Office review the actual year end fund balances for the Environmental Services Fund and adjust future budgets to more accurately reflect the fund balances available at year end.**

Administration's Response:

The Budget Office always reviews the actual year end fund balance for the Environmental Services Fund and adjusts future budgets. However, there are reasons for putting more funds into the budget and less into the contingency fund. These reasons are as follows:

- In the past few years several collection contractors have gone out of business requiring the County to pay emergency collection costs which are generally twice as expensive. There are needs to be funds in the budget to cover these unforeseen emergencies.
- Although Environmental Services is very careful when it comes to the environment it is impossible to anticipate every single environmental possibility. Should a smaller environmental event occur, it could be covered immediately by the operating budget.

The Administration feels that the amount budgeted should not be reduced in the Environmental Services Fund. With this spending authority, there is flexibility to respond immediately to an emergency situation.

Auditor's Comments:

We believe the current presentation does not accurately reflect either the activity in the fund or the anticipated fund balance (contingency). Since the purpose of a contingency is to have funds available for unanticipated funding needs during the year, we still believe accurately presenting the excess funding in the contingency, rather than inflating expenditures does not prohibit the use of these funds if additional funding is required. Funds from the Environmental Fund Contingency can be transferred to pay for any unbudgeted expenses. In addition, transfers would provide a better audit trail as well as a more realistic budget to actual expenditure presentation. Therefore, this recommendation should be implemented.

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